

VZCZCXRO6392
PP RUEHCHI RUEHCN RUEHDT RUEHHM
DE RUEHVN #0240/01 1150453
ZNR UUUUU ZZH
P 240453Z APR 08
FM AMEMBASSY VIENTIANE
TO RUEHC/SECSTATE WASHDC PRIORITY 1971
INFO RUEHXS/ASSOCIATION OF SOUTHEAST ASIAN NATIONS PRIORITY
RUEHBJ/AMEMBASSY BEIJING PRIORITY 2292
RUEHRC/DEPT OF AGRICULTURE WASHINGTON DC PRIORITY
RUCPDO/DEPT OF COMMERCE WASHDC PRIORITY
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
RHHMUNA/CDR USPACOM HONOLULU HI PRIORITY

UNCLAS SECTION 01 OF 03 VIENTIANE 000240

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COMMERCE FOR HP PHO
TREASURY FOR SUSAN CHUN
PACOM FOR POLAD
HANOI FOR WADE

E.O. 12958: N/A

TAGS: [EAGR](#) [EAID](#) [ETRD](#) [ECON](#) [PGOV](#) [PREL](#) [EPET](#) [LA](#)
SUBJECT: FOOD PRICES IN LAOS: STICKY RICE PRICES REMAIN
FAIRLY STICKY

¶1. Summary: Despite rising world prices for white rice, sticky (glutinous) rice, the primary rice variety eaten in Laos, has seen only moderate price rises this year. One notable aspect of Lao sticky rice prices has been their stability over the past several years despite inflation averaging 7.2% in Laos since 2004. Lao white rice prices, however, have gone up significantly versus last year, as Lao farmers planting white rice generally use the same Jasmine variety as those undergoing large price increases in Thailand. The Lao central government has imposed no controls over the export of rice; the power to ban exports is delegated to the provinces, only one of which has announced a difficult to enforce export ban. Weak border controls make it difficult to keep the determined farmer away from a potentially lucrative market in neighboring countries. While few people in Laos enjoy paying more for rice, the Embassy does not foresee current price movements leading to social unrest or political instability. End Summary.

¶2. Despite rising international prices and media headlines, the central Government of Laos has not imposed any bans on the export of rice. Econoff met April 9 with Dr. Laohua Cheuching, Deputy Director General of the Department of Import and Export at the Ministry of Commerce. Dr. Laohua prepares government import-export policies and is a member of the Lao WTO negotiating team. He was eager to discuss the role of the central government in regulating rice exports. According to Dr. Laohua, the right to impose export bans rests at the provincial level. An April 7 Vientiane Times article stated that Champassak province in southern Laos had banned export of rice to neighboring countries. Champassak, which shares borders with Thailand and Cambodia, also reportedly banned the export of unmilled rice (often called "paddy rice" in Laos) to other provinces to "protect farmers from receiving low prices."

¶3. According to Dr. Laohua, rice is deemed by the government as a "sensitive" commodity subject to trade regulation. However, the provinces do not/not have the right to ban trade within Laos, and he noted he would look into the newspaper claim of an interprovincial ban. According to unofficial inquiries with local Lao, even if price controls exist in theory, they do not operate in reality. Prices at the market are determined by market forces, even for "sensitive" goods, not government diktat. However, governmental officials and

local village chiefs are known to try and use moral suasion to try to "talk down" prices during periods of heavy demand. (Note: Petroleum prices are a notable exception and are regulated. However, if the government fails to increase the price local providers are allowed to charge, as happened recently in Vientiane, the providers will simply not import additional supplies until they have a guaranteed profit margin. A number of gas stations reportedly ran out of diesel fuel April 22 as the government dithered over allowing a retail price rise. Unsurprisingly, the government agreed to a price rise the afternoon of April 22. End note.)

14. An international expert on rice cultivation also dismissed the Lao government's ability to regulate rice exports. Laos border controls are weak and subject to easy manipulation via bribery and evasion. According to the expert, the only people likely to need (and seek) export permits would be large scale exporters using containerized shipping. Even then Lao customs is known for its willingness to look the other way for a modest fee.

16. Dr. Gary Jahn of the International Rice Research Institute provided a wealth of information on Lao and regional rice prices, noting that prices at the farmgate for sticky rice in Savannakhet province (a major producer) in April are 2,000 kip/kilogram, 200 kip less expensive than in March. (Note: \$1 U.S. is currently worth approximately 8,700 kip. End note.) Dr. Jahn expects prices in May to rise, as the price in Thailand for sticky rice has recently risen and it is the Thai price driving the Lao price. For white rice, primarily Jasmine, farmgate prices are currently 2,500 kip/kilogram, about 300 kip higher per kilo than in January and about 500 kip per kilogram higher than last year

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and representing a 25% increase. Jahn said that Lao and Thai white rice farmers generally grow the same variety of Thai Jasmine rice called KDLM 105. He noted that Lao Jasmine tends to be cheaper than Thai as it generally is grown from older seeds and the mill quality in Laos is lower than in Thailand. However, he did note that in Laos purchasing white rice at a market means purchasing 100% Jasmine, while purchasing "Jasmine" rice over the border in Thailand often means only 50% Jasmine rice content, with the other 50% a mixture of cheaper varieties.

17. Post queried the Lao government for its official Consumer Price Index figures on rice prices and econ staff also made a number of unofficial market visits (April 10 and April 21) to assess the price of rice in Vientiane. The Lao Ministry of Commerce, Department of Domestic Trade provided the following information:

Rice price in kip per kilogram (\$1=8,700 kip)/Thon Kam Market Vientiane (As of April 1)

	2008	2007	2006	2005	2004
Sticky Rice 1st Quality	6,500	6,000	5,000	5,000	5,000
Sticky Rice 2nd Quality	5,500	5,000	4,000	4,000	4,000
White Rice 1st Quality	9,000	6,000	5,000	4,500	4,500
White Rice 2nd Quality	7,000	5,000	4,000	4,000	4,000
Thai White Rice 1st Quality	11,000	7,000	7,000	6,000	6,000

18. Lao official government prices tracked closely with prices econ staff saw at the market, although a check April

21 showed Thai white rice had jumped to 14,000 kip/kilo and prices Post saw for Lao sticky rice were generally about 1000 kip/kilo higher for first quality sticky rice than the CPI table. Thus average price increases since 2007 for first quality sticky rice in Vientiane are about 8% according to the CPI table and about 16% higher than our market visits, which indicate a price of 7,500 kip/kilogram. According to local experts, the rise in sticky rice prices at the market is primarily a function of higher transport costs (gasoline).

In contrast, prices in Savannakhet for milled sticky rice, for example, are approximately 5,000 kip/kilo, 1,500-2,500 kip below Vientiane prices. As the international market for sticky rice is small--estimated at around 300,000 tons a year and primarily composed of Thai sticky rice -- price variations in Laos barring large crop failures are more dependent on overall inflation in Laos than international demand. According to Dr. Jahn, Lao farmgate prices for sticky rice this year are actually about 500 kip/kilo lower than last year's price, which was inflated because the Chinese crop had been largely wiped out by disease and flooding.

¶9. Perhaps the most interesting aspect of rice prices in Laos has been their relative stability from 2004-2006, years in which domestic inflation averaged about 8.14%. Current inflation figures in Laos are near 8% annualized, with the government publicly stating a goal of 6% for 2008. Inflation in Laos is currently being driven primarily by rising transport/gasoline costs and the large influx of dollars from sales of minerals and tourism. As additional large mines and large hydropower plants begin to come on line in Laos and pour money into government budgets, inflation will likely continue to be a reality unless the government finds a way (such as a trust fund) to actively manage the foreign currency influx. The IMF resident representative recently gave the GOL high marks for managing the foreign currency influx to date, but also noted the need for future active

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management to lower inflation risks.

¶10. Comment: The nature of the rice market in Laos, which is much smaller than its neighbors with a population of only six million people, helps insulate it from international price gyrations. Laos is largely self-sufficient in rice production, and its people generally consume sticky rice, a variety of rice that is not widely traded or eaten. Distribution difficulties, an incomplete road network, and poverty do lead to shortages, notably in upland ethnic minority areas where it is common for people to face rice shortage for 6 months a year. But these are "normal" food security issues in Laos; the current rise in world rice prices is not yet having a material effect on Laos, and the Embassy does not expect political instability to arise from higher rice prices. Political protest is almost unheard of in this Communist country, and quickly quelled when it does occur. The Lao public has weathered worse crisis, such as high inflation following the Asian financial crisis, without any sign of instability. Eighty percent of the Lao are subsistence farmers. Many urban residents either have their own rice paddies close to the city or relatives who farm family land. The consumption of more expensive white rice varieties is largely an urban phenomenon, and sticky rice is easily substituted if price rises become an issue.
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